



Interim Joint Committee on Appropriations and Revenue

John T. Hicks

Acting State Budget Director

November 13, 2008

Overview

- Quarterly Economic and Revenue Report
- October 2008 Receipts
- Consensus Forecasting Group – Revision of enacted revenue forecast for FY 2009
- Budget Reduction Planning

Quarterly Economic and Revenue Report

- KRS 48.400 requires the State Budget Director to report the actual revenue receipts for one quarter plus projected receipts for the next three quarters
- This report comprises all 4 quarters of FY 2009
- Report compares enacted revenue estimates to this updated forecast
- U.S. economic forecast – Ky economic forecast – estimated receipts for General and Road Funds

General Fund: Interim Estimate, October 2008

(millions of dollars)

	Budgeted		Interim		Difference
	Estimate	% Chg	Forecast	%Chg	
Sales & Use	2,977.8	3.5	2,912.2	1.2	-65.6
Individual Income	3,472.8	-0.3	3,411.5	-2.1	-61.3
Corporation Inc & LLET	622.3	16.6	421.6	-21.0	-200.7
Coal Severance	223.7	-4.0	288.1	23.6	64.4
Tobacco	178.5	0.0	173.1	-3.0	-5.4
Property	518.9	3.6	527.2	5.3	8.3
Lottery	198.5	5.9	198.5	5.9	0.0
Other	693.5	3.5	660.2	-1.5	-33.3
Total General Fund	8,886.0	2.6	8,592.4	-0.8	-293.6
					-3.3%

General Fund Forecasting Notes

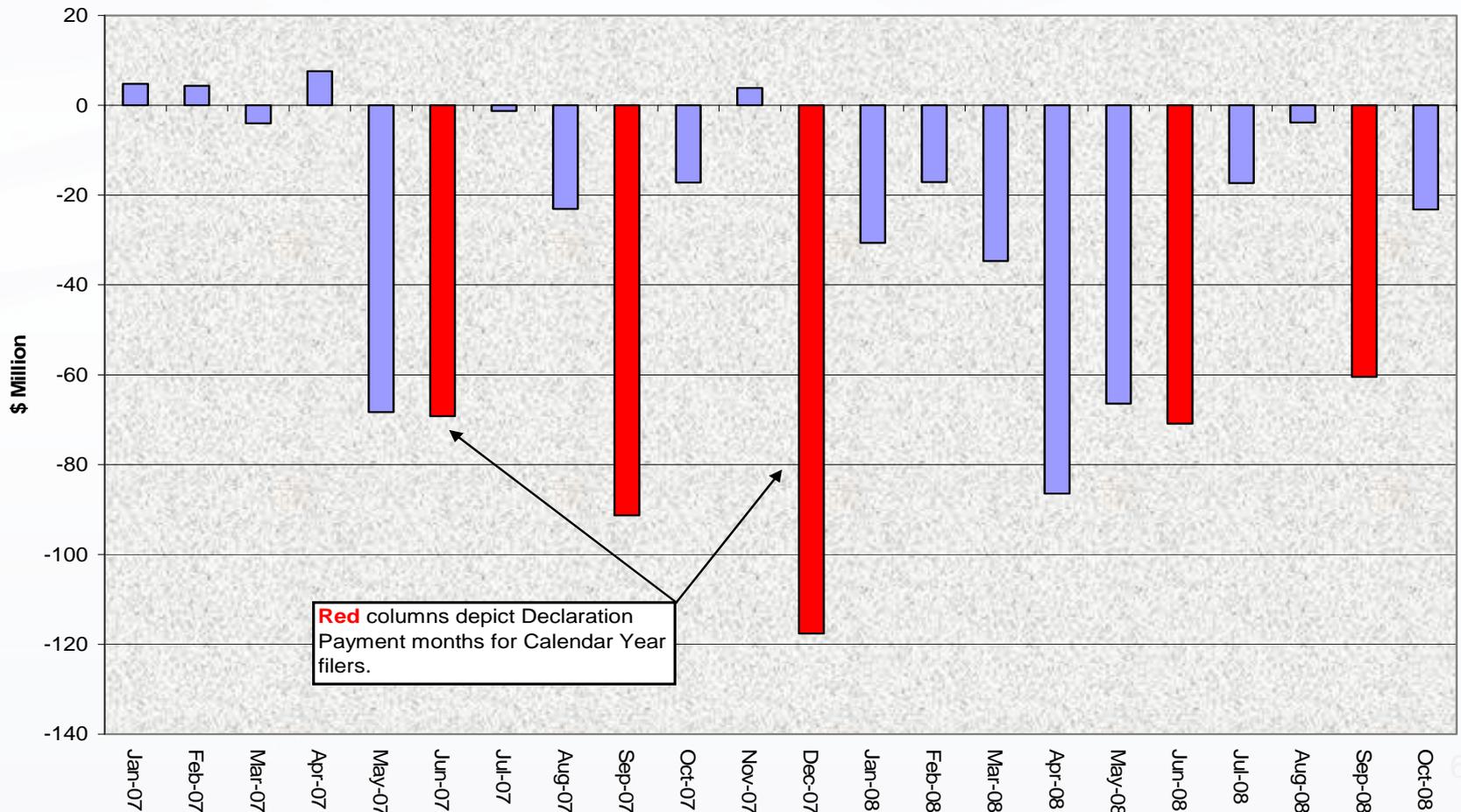
(Assumptions and rationale for major taxes)

- **Individual Income Tax**
 - Weaker withholding growth (job losses, reduced work hours)
 - Capital gains income down sharply due to the market
- **Sales Tax**
 - US retail sales down sharply
 - Consumer sentiment lowest level in 40 years
- **Corporation Income Taxes**
 - Companies make forward-looking estimated tax payments (and the short-term future prognosis is exceedingly negative)
 - Businesses claiming loss carry-forwards from prior year returns
 - Very high levels of corporate tax refunds
 - Kentucky has a relatively heavy concentration in transportation manufacturing. Automakers are excessively vulnerable to the current environment of lower aggregate demand and excessively tight credit

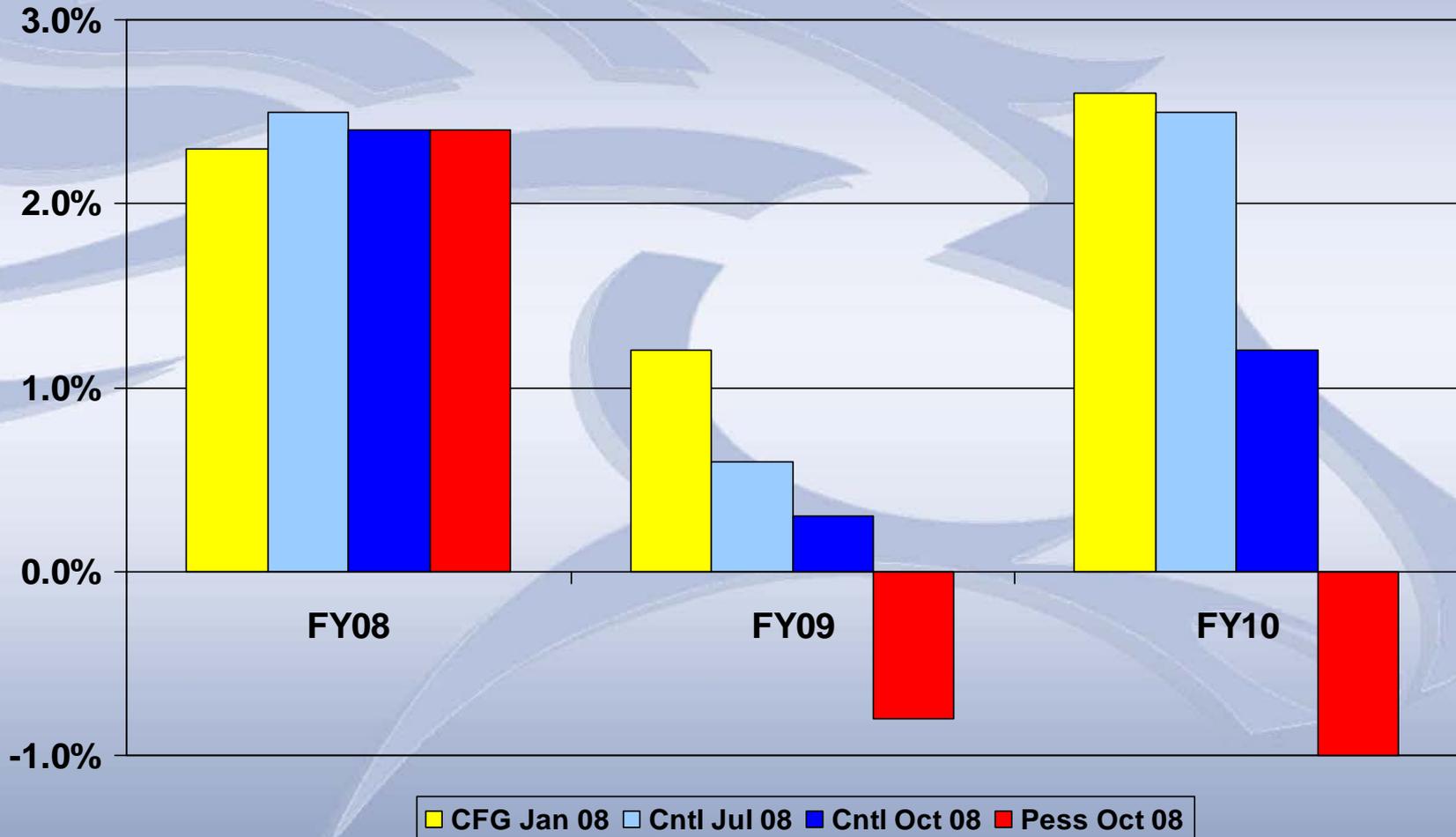
Corporation Income Tax

(A declining revenue source since January 2007)

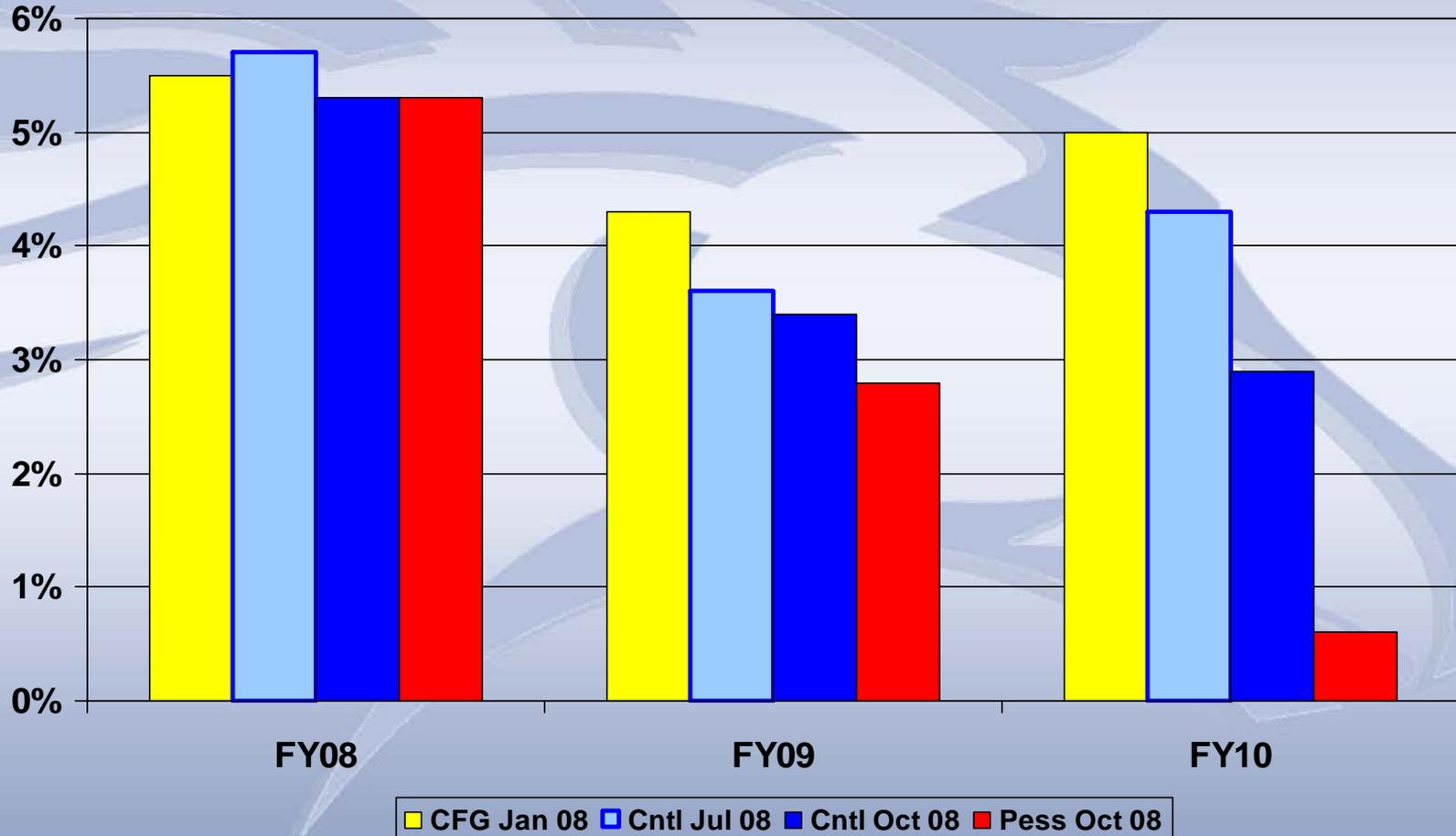
Corporation Income Tax since January 2007



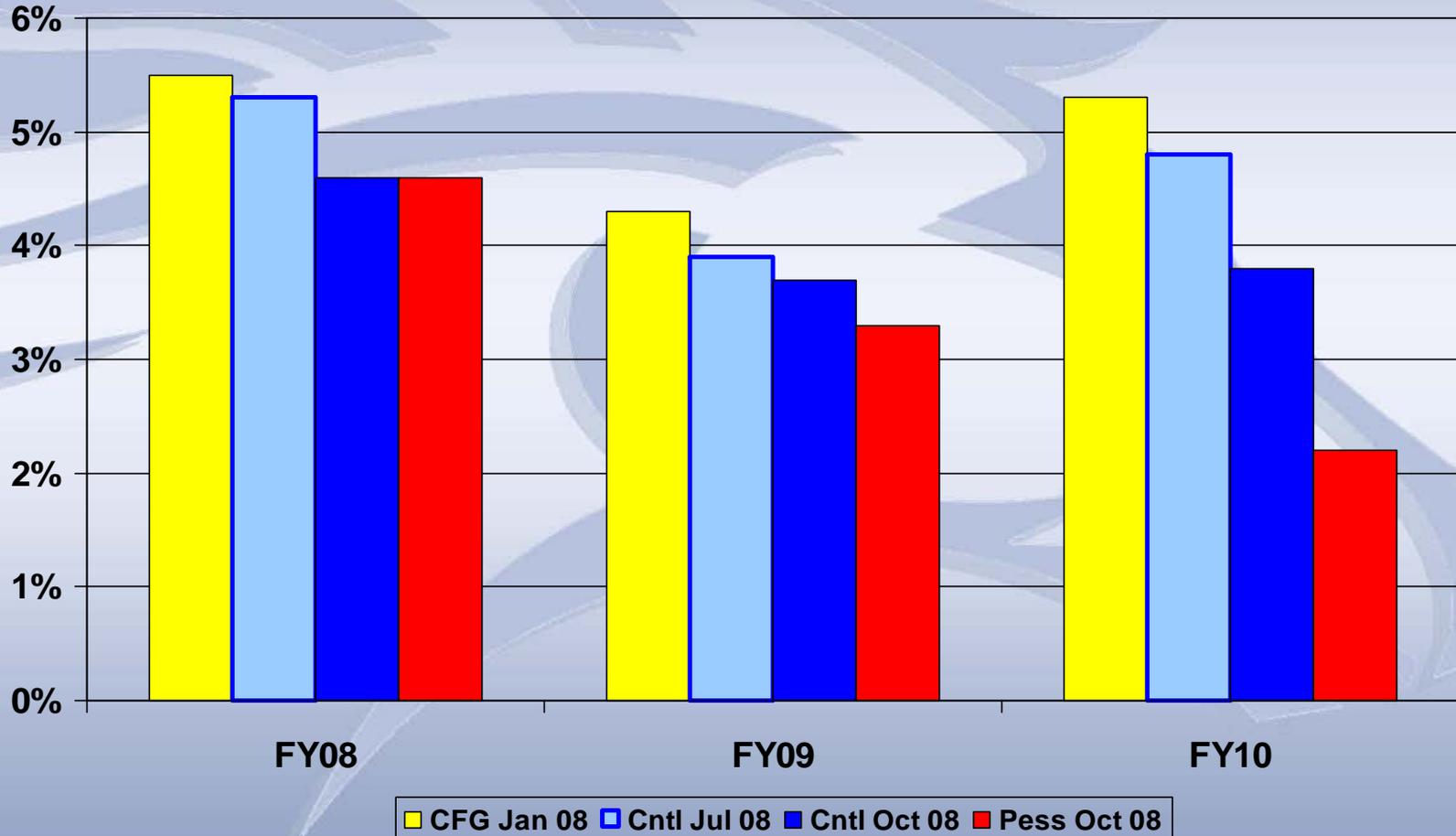
U.S. GDP



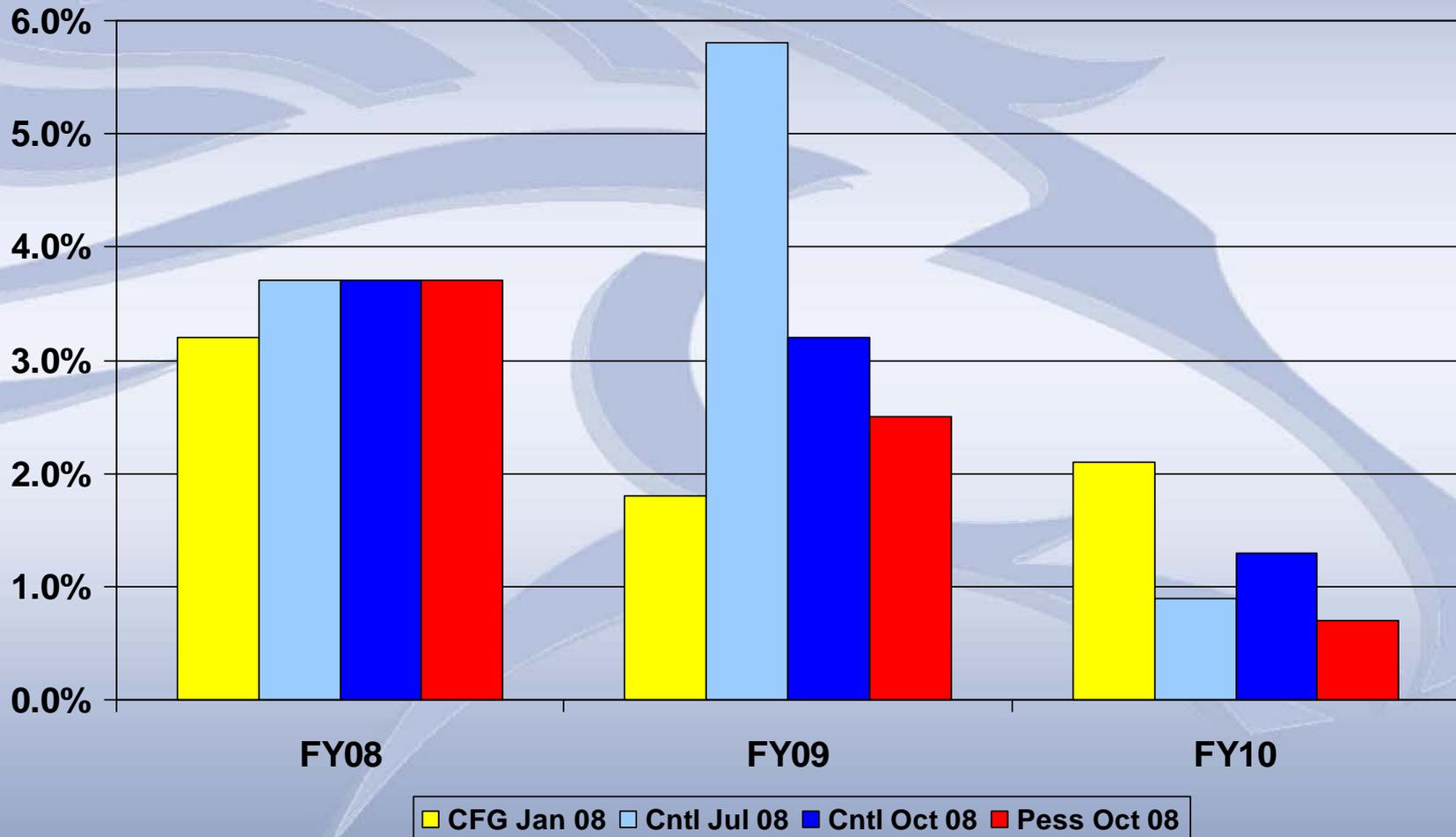
U.S. Personal Income



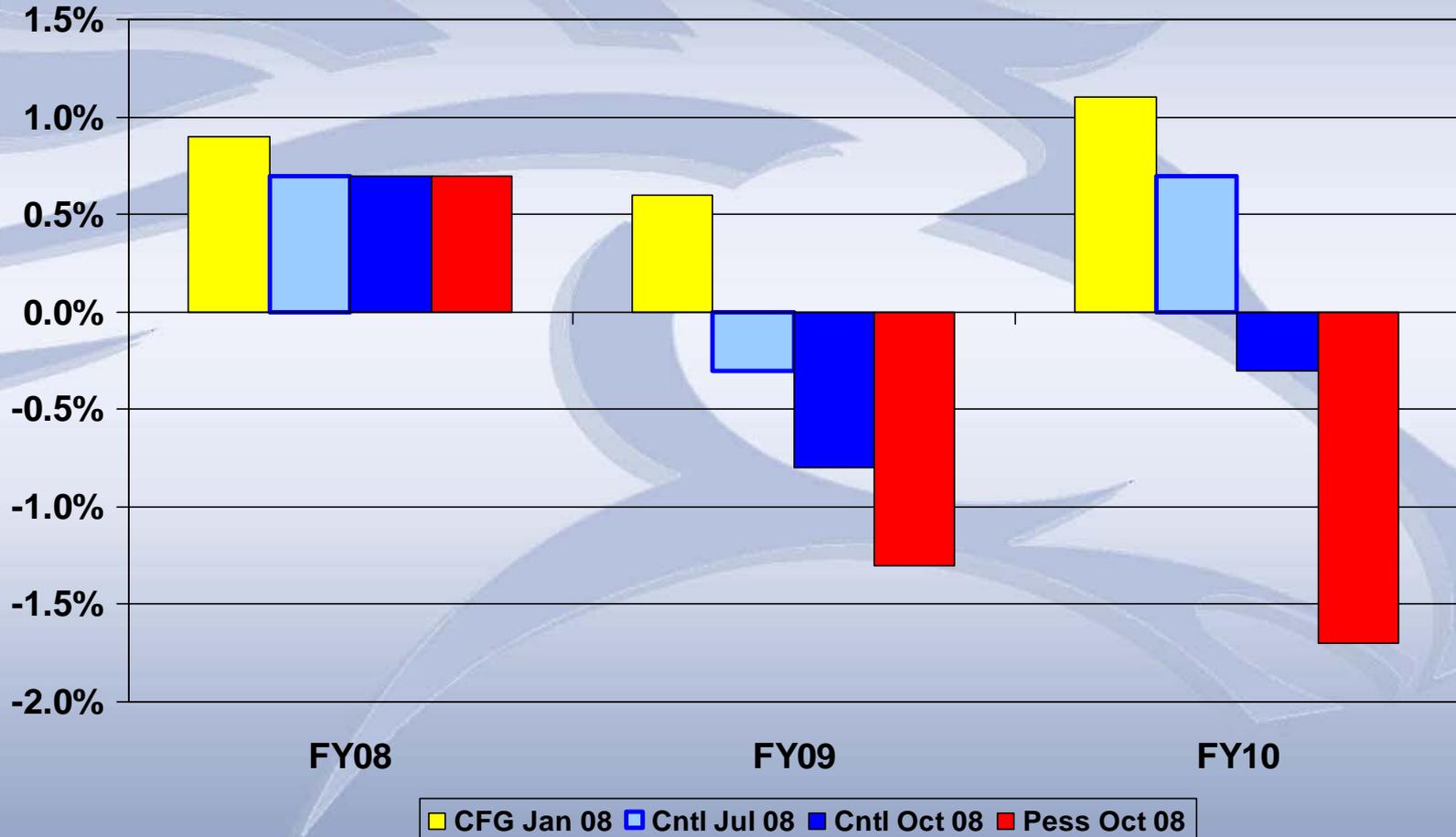
KY Personal Income



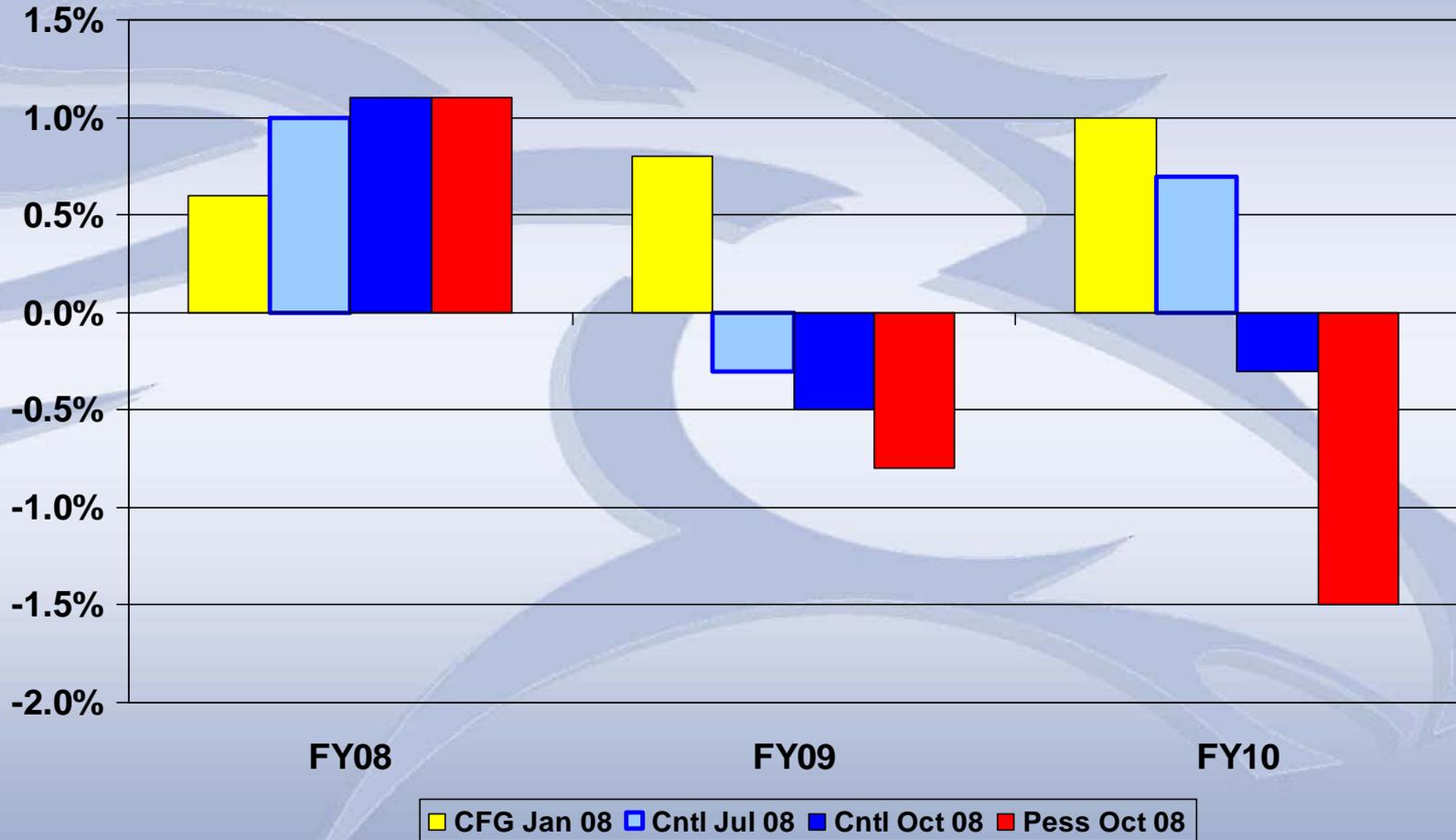
CPI Rate of Inflation



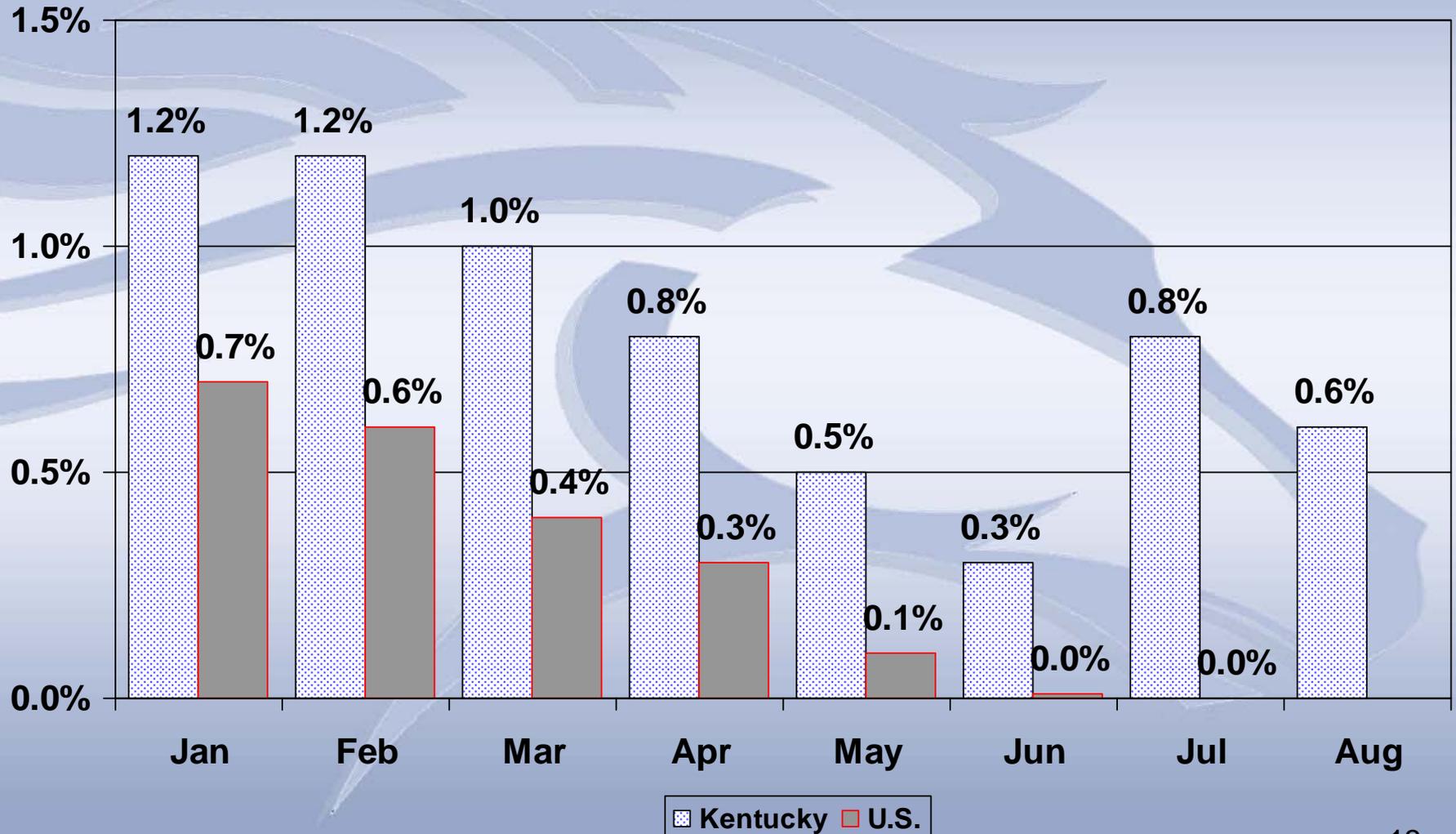
US Nonfarm Employment



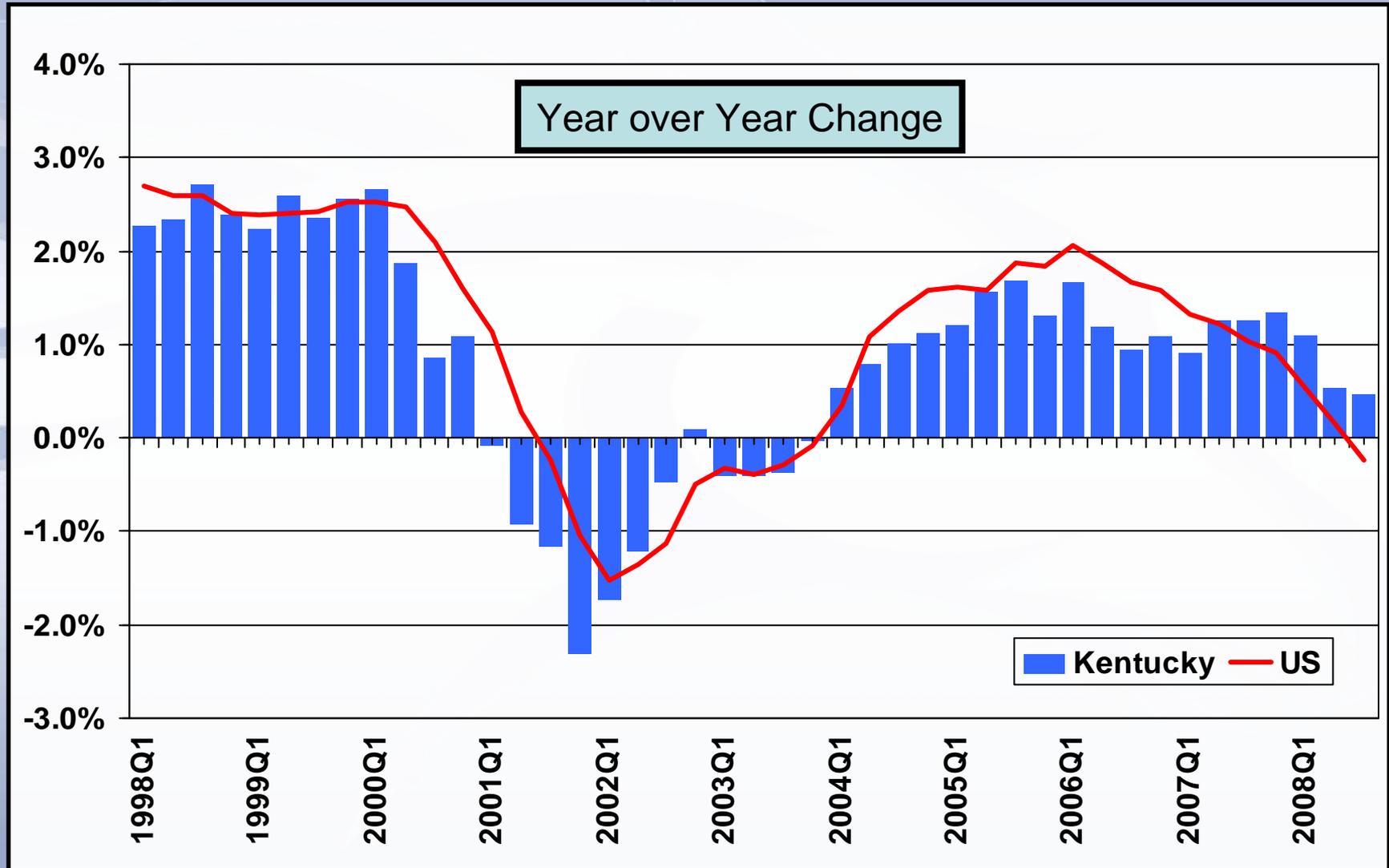
KY Nonfarm Employment



Nonfarm Employment: Change from Year Ago



Employment Growth, Kentucky vs. U.S.



SOURCE: Bureau of Labor Statistics, US Dept of Labor.

FY09 Road Fund Interim Estimates

(A **Road Fund** comparison between enacted and interim revenue estimates in millions)

	Budgeted		Interim		Difference
	Estimate	% Chg	Forecast	%Chg	
Motor Fuels	661.4	8.6	638.4	4.9	-23.0
Motor Vehicle Usage	411.9	1.5	373.9	-7.9	-38.0
Motor Vehicle License	109.5	17.1	96.3	3.0	-13.2
Motor Vehicle Operators	15.5	0.8	16.3	5.8	0.8
Weight Distance	85.9	1.8	81.6	-3.3	-4.3
Investment	5.8	-70.2	10.9	-44.1	5.1
Other	34.8	-2.0	36.8	4.0	2.0
Total Road Fund	1,324.8	4.9	1,254.2	-0.7	-70.6
					-5.3%

Road Fund Forecasting Notes

(Assumptions and rationale for major taxes)

- **Motor Fuels Taxes**

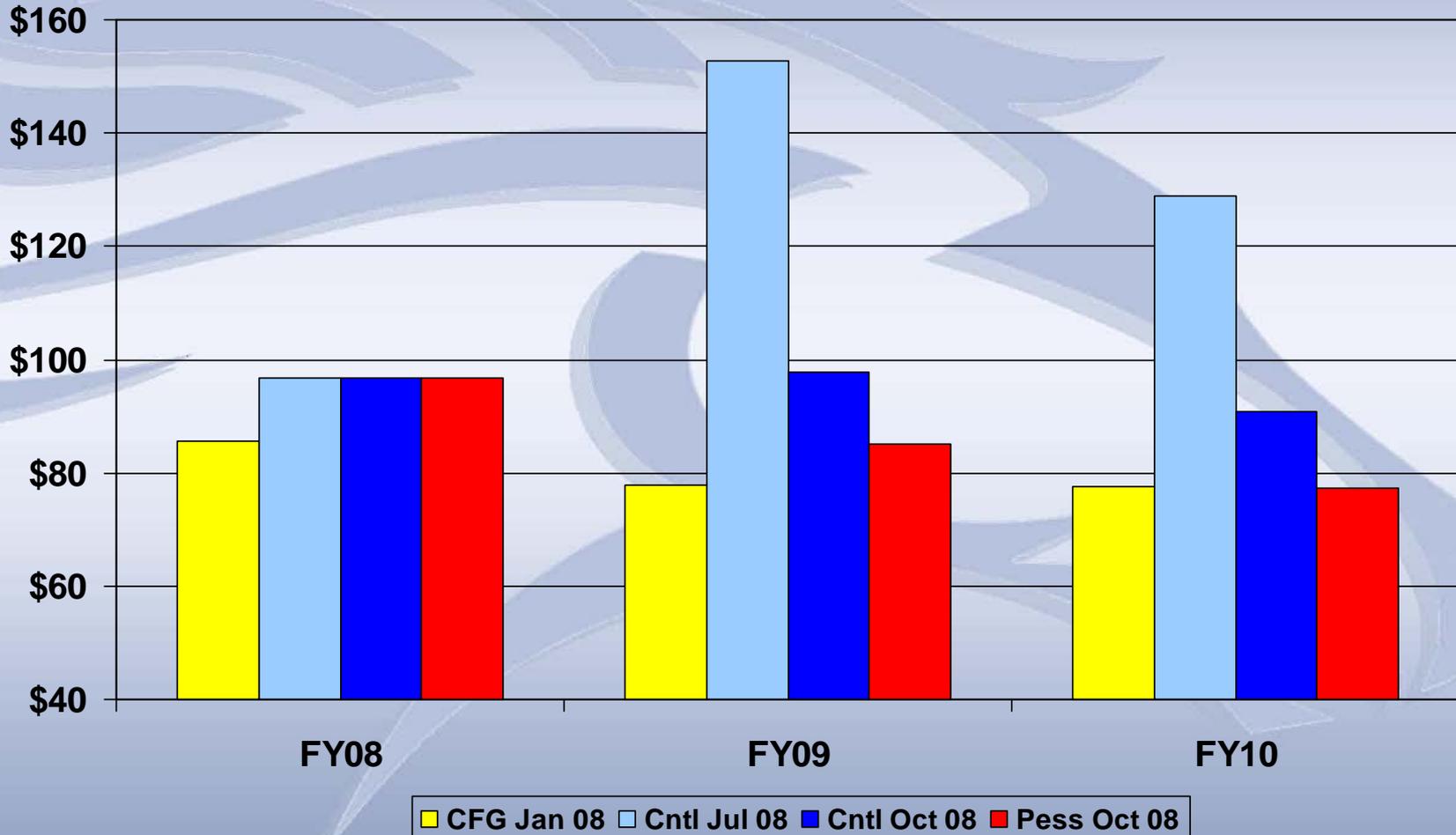
- Consumption in the 1st quarter fell due to higher pump prices
- Receipts declined in the 1st quarter
- OSBD model projects 7.1% tax growth for the remainder of FY09

- **Motor Vehicle Usage Tax**

- The MV usage tax functions much like a sales tax: 6.0% of the purchase price on new and used vehicles.
- Models project a 7.3 percent decline for the remainder of FY09
- Several economic factors lend credence to this bearish forecast:
 - Tighter credit standards
 - Higher unemployment
 - Shift toward less expensive, fuel efficient vehicles

Crude Oil: West Texas Intermediate

(dollars per barrel)



October 2008 General Fund Receipts

(in millions)

	FY 2007	FY 2008	%Chg
Sales Tax	246.7	252.5	2.4%
Individual, Corporate & LLET	297.7	307.2	3.2%
Individual Income Tax	265.6	286.9	8.0%
Corporation Income	30.1	6.9	-77.0%
Limited Liability Entity	2.0	13.3	
Coal Severance Tax	18.9	24.2	28.1%
Cigarette Taxes (with OTP)	15.7	15.4	-2.2%
Property Taxes	18.5	25.8	39.3%
Lottery	14.5	15.5	6.9%
Miscellaneous	50.5	39.0	-22.6%
Total General Fund	662.6	679.6	2.6%

October 2008 General Fund Receipts (Accounting for timing change)

	FY 2007	FY 2008	%Chg
Sales Tax	246.7	252.5	2.4%
Individual, Corporate & LLET	297.7	307.2	3.2%
Individual Income Tax	265.6	286.9	8.0%
Corporation Income	30.1	6.9	-77.0%
Limited Liability Entity	2.0	13.3	
Coal Severance Tax	18.9	24.2	28.1%
Cigarette Taxes (with OTP)	15.7	15.4	-2.2%
Property Taxes	18.5	11.2	-3.9%
Lottery	14.5	15.5	6.9%
Miscellaneous	50.5	39.0	-22.6%
Total General Fund	662.6	665.0	0.0%

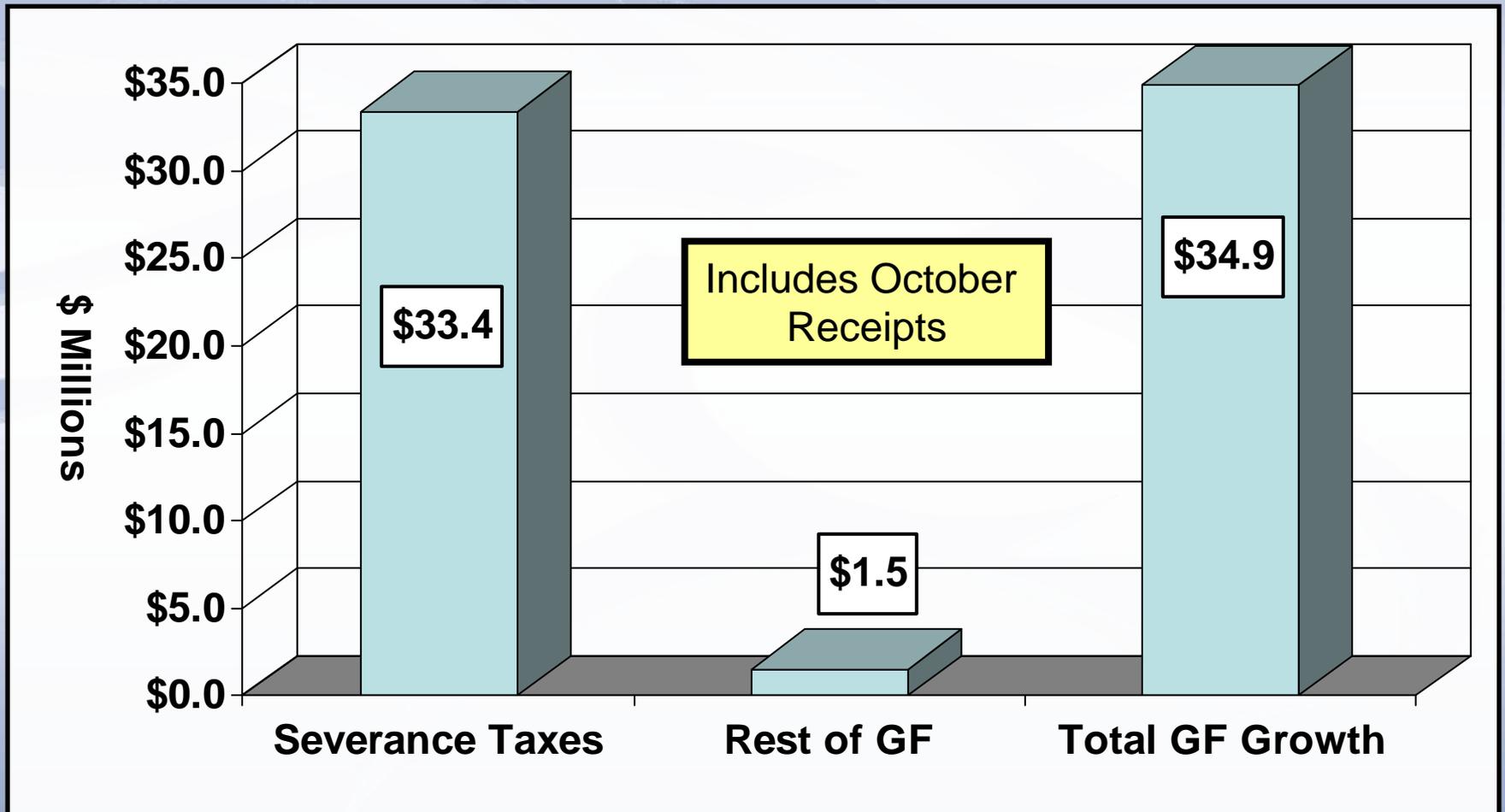
July-October 2008 General Fund Receipts

(in millions)

	FY 2007	FY 2008	%Chg
Sales Tax	974.9	1,003.9	3.0%
Individual, Corporate & LLET	1,303.0	1,278.1	-1.9%
Individual Income Tax	1,088.3	1,163.6	6.9%
Corporation Income	194.1	89.3	-54.0%
Limited Liability Entity	20.6	25.2	22.4%
Coal Severance Tax	72.3	96.9	34.0%
Cigarette Taxes (with OTP)	61.8	59.0	-4.5%
Property Taxes	77.4	89.6	15.8%
Lottery	56.0	58.5	4.5%
Miscellaneous	184.2	178.5	-3.1%
Total General Fund	2,729.7	2,764.5	1.3%

Severance Taxes are Performing Well

(Columns represent YTD growth in FY09 including October Receipts)



October 2008 Road Fund Receipts

(in millions)

	FY 2007	FY 2008	% Chg
Motor Fuels Taxes	48.0	51.7	7.7%
Motor Vehicle Usage	37.3	30.6	-17.9%
Motor Vehicle License	6.6	4.4	-34.1%
Motor Vehicle Operators	1.2	1.3	14.7%
Weight Distance	2.2	2.0	-10.5%
Investment	1.2	0.8	-37.4%
Other	3.1	2.8	-10.4%
Total Road Fund	99.7	93.6	-6.1%

July – October 2008 Road Fund Receipts

(in millions)

	FY 2007	FY 2008	% Chg
Motor Fuels Taxes	208.2	209.7	0.7%
Motor Vehicle Usage	147.5	130.6	-11.4%
Motor Vehicle License	25.2	22.0	-12.5%
Motor Vehicle Operators	5.2	5.6	8.1%
Weight Distance	24.3	22.7	-6.5%
Investment	4.6	3.5	-24.6%
Other	11.4	11.5	0.6%
Total Road Fund	426.4	405.6	-4.9%

Consensus Forecasting Group

(Request for Revised Revenue Estimate)

- October 31, 2008 letter requested an official revision to the FY 2009 General and Road Fund revenue estimates
 - KRS 48.120 provides the ability to request a revision
 - Time frame – initial meeting Friday November 14, second meeting Friday November 21
- Unique context for FY 2009 Shortfall – over the last 30 years:

First year in which a budget that is already scheduled to spend less than the year before it – approximately 2% less than FY 2008 – will absorb a budget cut.

Budget Reduction Planning

- **House Bill 406, part VI – Enacted General Fund Budget Reduction Plan**
 - Pursuant to KRS 48.130 and 48.600
 - Adjustment to Local Government and Economic Development and Local Government Economic Assistance Funds
 - Application of unbudgeted surplus from the previous fiscal year and transfers of excess unappropriated Restricted Funds
 - Budget Reserve Trust Fund not to exceed 25% of balance in FY 2009
 - General Fund reductions from personnel vacancies, reduced requirements for operating, grants, capital outlay
 - Necessary actions to balance the budget
 - Take care to protect, preserve, and advance the fundamental health, safety, legal and social welfare, and educational well-being of the citizens of the Commonwealth
- **House Bill 406, part VIII – Enacted Road Fund Budget Reduction Plan**
 - The Governor shall implement sufficient reductions as may be required to protect the highest possible level of service
 - Adjustment to Revenue Sharing programs already required by statute